

FITCH RATES ALASKA MUNICIPAL BOND BANK AUTHORITY'S \$88MM GOS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-30 April 2015: Fitch Ratings assigns an 'AA+' rating to approximately \$87.97 million of Alaska Municipal Bond Bank Authority (bond bank) general obligation (GO) and refunding bonds, 2015 series two, issued under the bond bank's 2005 GO bond resolution.

The bonds are expected to sell via negotiation on May 13, 2015.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the bond bank, for which the state also maintains a standing appropriation of state general fund resources to replenish the bonds' reserve fund in the event of borrower default. This standing appropriation is the basis for the assigned rating on the 2005 resolution bonds.

KEY RATING DRIVERS

STATE ANNUAL APPROPRIATION: The state of Alaska includes as part of its annual debt service appropriation in its operating budget an appropriation for reserve fund replenishment in the event of a draw related to default by a participating municipality (borrower), resulting in a rating one notch below the state's 'AAA' GO rating.

PROVEN STATE SUPPORT AND STRONG REPAYMENT HISTORY: The bond bank's programs have a solid history of debt repayment, and the state of Alaska has a demonstrated history of support for and involvement with the bond bank. The bond bank has consistently worked with the state to strengthen bondholder protections while achieving its programmatic goals. The state's own resources are substantial.

MULTIPLE LAYERS OF SECURITY: Multiple layers of security support bond bank issues in the event of a local government's failure to pay debt service on its obligations to the bond bank. Security enhancements include underlying borrower reserve funds in some cases, bond bank reserve funds, the state's standing appropriation for reserve fund replenishment, the state's statutory moral obligation, and the bond bank's statutory authority to intercept aid to local governments. Coverage of maximum annual debt service by state aid is substantial.

RATING SENSITIVITIES

The rating is sensitive to movement in the state of Alaska's GO bond rating to which it is linked.

CREDIT PROFILE

The 'AA+' rating is based on the state's commitment to GO bonds of the bond bank issued under the 2005 GO resolution in the form of a standing appropriation of general funds for program reserve fund replenishment. GO bonds issued under the 2005 resolution also incorporate multiple layers of security on both the borrower level and state level. Issuance requires either a borrower's GO or revenue pledge or other evidence of pledged revenues for allowable debt obligations, with a borrower reserve available for revenue bonds. Bond bank borrowers must demonstrate project essentiality

and ability to repay in order to access financing. The current bonds will fund three separate local government project loans; for the city of Cordova, the municipality of Skagway, and for the city and borough of Juneau; and refund outstanding bonds issued by the bond bank under its 2005 bond resolution.

The bond bank maintains a pooled program reserve fund for the 2005 resolution bonds, funded at approximately \$51.3 million as of March 31, 2015, backed by a moral obligation of the state established by state statute requiring establishment of a reserve and that the bond bank seek a general fund appropriation in the event of a borrower's payment default. This pledge was strengthened with the bond bank's commitment to seek a standing appropriation for these bonds and the state's subsequent appropriation, beginning in fiscal 2009.

The bond bank was established in 1975 to provide access to low-cost capital financing for Alaska local governments. Not inclusive of the current sale, approximately \$895.4 million in 2005 GO resolution bonds are currently outstanding. The bond bank's limit for total bonds outstanding at any one time is almost \$1.6 billion; not including the current sale, total bonds and obligations outstanding as of May 1, 2015 is expected to be approximately \$902.2 million, inclusive of debt issued under the 1976 and 2010 bond resolutions.

The bond bank was authorized in 2014 to lend up to \$87.5 million to the University of Alaska for heating and energy projects, secured by a revenue pledge from the university. The bond bank is expected to consider a loan request for the full amount of the authorization later this year. In the 2015 legislative session, senate bill 46 was approved by the legislature that permits the issuance of bonds or notes by the bond bank secured by a revenue pledge of a regional health organization or joint action agency, subject to certain requirements. The governor is currently considering this legislation. While Fitch believes these changes, both enacted and proposed, do not impact the rating on the bond bank's obligations, Fitch notes the possible broadening of the bond bank's role beyond its original scope.

As noted above, the moral obligation for the bonds was strengthened by inclusion in the state's annual budget, beginning in fiscal 2010, of an appropriation to restore any deficiency in the 2005 program reserve fund. An appropriation for this purpose was included in the governor's proposed budget for fiscal 2016. Further protections include a state intercept of local aid for borrowers and the ability to access a bond bank custodian account. The custodian account, bolstered by recent state deposits, prior reserve releases, and funded at approximately \$20.7 million as of March 31, 2015, is expected to be used for deposits to the pooled program reserve fund on the current bond issue.

Payments by the borrowers are due seven days prior to debt service payment; there have been no payment defaults under the program to date. Program reserve funding is required at the IRS maximum, and reserves are currently cash funded by bond proceeds and bond bank resources although external enhancement may be used. After the current issue, the bond bank is considering using surety policies for future contributions to the pooled program reserve fund. Fitch would review the use of surety policies for the reserve requirement in regard to its relationship to our criteria for these types of obligations. State statute requires the bond bank chair to certify annually the sum necessary to restore the program reserve to the required level. The appropriation for program reserve replenishment is included in the state's annual operating budget. A supplemental resolution for the 2005 resolution bonds requires the bond bank to seek the appropriation annually.

Alaska's 'AAA' GO rating reflects the state's maintenance of very substantial reserve balances and conservative financial management practices to offset significant revenue volatility linked to oil production from the North Slope and global petroleum price trends. For many years, the state has witnessed a gradual decline in production at its oil fields; however, tax revenues to the state have largely continued to increase as a factor of increased prices for Alaska North Slope (ANS) crude oil. The state prudently dedicated a substantial share of its oil tax revenue to reserves and has continued to employ long-range forecasting of its revenue, expenses, and natural resources industry. While the

Spring 2015 revenue forecast projects modest increases in production in fiscal years 2016 and 2017, the state continues to forecast production declines over the long term.

As part of the state's long-range planning, reserve balances grew exponentially over the past several fiscal years. The sharp drop in crude oil prices in late 2014 increased an earlier anticipated revenue shortfall in fiscal 2015 to a current \$3.9 billion (64% of unrestricted general fund expenditures; up from \$3.6 billion expected in the Fall of 2014) that Fitch expects to be covered by a draw from the state's vast financial reserves. An additional reserve draw of over \$3 billion is projected by the state based on the governor's proposed budget for fiscal 2016; the legislature has entered into a special session as debate on the budget proposal continues. Despite the planned applications, Fitch believes the state is committed to keeping reserve levels high.

For further information on the state, please see 'Fitch Rates Alaska's \$258MM Bonds and BANS; Affirms Outstanding GOs at 'AAA' dated Feb. 27, 2015, which is available at 'www.fitchratings.com'.

Contact:

Primary Analyst

Marcy Block

Senior Director

+1-212-908-0239

Fitch Ratings, Inc.

33 Whitehall Street

New York, NY 10004

Secondary Analyst

Douglas Offerman

Senior Director

+1-212-908-0889

Committee Chairperson

Karen Krop

Senior Director

+1-212-908-0661

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'Rating Guidelines for Moral Obligations' (April 18, 2013).

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. State Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033

Rating Guidelines for Moral Obligations

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=704882

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